

THE FINANCIAL INSTITUTION

EMPLOYEE'S GUIDE TO

DEPOSIT INSURANCE

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FOREWORD

This handbook was developed by the Federal Deposit Insurance Corporation (FDIC) as a reference guide for employees of insured financial institutions who attended one of the FDIC's National Deposit Insurance Seminars during the Spring/Summer of 1995. It was subsequently revised to improve clarity and readability. The revisions were not a result of any changes in the deposit insurance regulations. If the deposit insurance regulations are changed, this manual will be updated at that time, and corrected insert sheets will be available.

Every financial institution that bears the FDIC logo on its door has a responsibility to ensure that it provides accurate and complete information about FDIC insurance coverage to its depositors. Bank and thrift employees who deal directly with depositors must understand the rules that govern deposit insurance coverage well enough to be able to explain them clearly and accurately.

This manual contains all of the material covered in the seminar series, and is a helpful guide to the deposit insurance rules for financial institution training staff, operations and savings officers, and others responsible for dissemination of deposit insurance information at financial institutions. The guide explains the FDIC's rules for deposit insurance coverage in a concise and non-technical way. The manual does not provide legal interpretations of the FDIC's regulations on insurance coverage. The FDIC Legal Division can provide information on FDIC Advisory Opinions and other official staff commentary on regulations. The Legal Division can be contacted at:

FDIC
Legal Division
550 17th Street N.W.
Washington, D.C. 20429

Also available are special instructional materials designed to assist insured institutions in developing an in-house training program on deposit insurance, including a set of problems and tests on the deposit insurance rules and calculation of deposit insurance coverage to check the knowledge of trainees.

INTRODUCTION

About This Guide

This volume describes the FDIC's rules and regulations for insurance coverage of accounts held by depositors at FDIC-insured financial institutions. It is intended to be a reference manual for employees of insured institutions who respond to questions from depositors about FDIC deposit insurance coverage.

Limitations of This Guide

Although this guide provides a thorough discussion of the requirements for FDIC's deposit insurance, it does not provide an exhaustive description of every rule affecting federal deposit insurance coverage. Similarly, it does not provide legal interpretations of the laws and regulations pertaining to FDIC deposit insurance coverage.

For more detail about the technical aspects of the FDIC's deposit insurance regulations, refer to the Federal Deposit Insurance Act and the Rules and Regulations for Insurance of Deposit Accounts. (A copy of the Rules and Regulations for Insurance of Deposit Accounts is provided in the Appendix.)

Disclaimer for Users of This Guide

Depositors should be advised that no person, by any representation or interpretation, may affect the extent of insurance coverage provided under the Federal Deposit Insurance Act and the Rules and Regulations for Insurance of Deposit Accounts.

Effective Date

This guide describes the FDIC deposit insurance rules in effect when the Guide was revised in June 1996. Some information in this manual may become obsolete if the laws and regulations defining FDIC insurance coverage are amended after publication of this volume.

***For Additional
Information***

To determine whether there have been statutory or regulatory changes that affect the insurance coverage described in this manual, call the FDIC's Deposit Insurance Hotline at the toll-free telephone number listed below.

The FDIC Division of Compliance and Consumer Affairs operates a toll-free Deposit Insurance Hotline that depositors and financial institution employees may call. Deposit Insurance Specialists are available to respond to your questions every weekday from 9:00 a.m. to 5:00 p.m., Eastern Time. In addition, pre-recorded information is available 24 hours a day, seven days a week. A separate toll-free number is available for consumers who require a Telephonic Device for the Deaf (TDD). To contact the FDIC Deposit Insurance Hotline, call:

1-800-934-3342	1-202-942-3100
1-800-925-4618 (TDD)	1-202-942-3147 (TDD)

You may also request copies of printed materials describing FDIC insurance coverage by calling the Hotline on weekdays during the hours of 9:00 a.m. to 5:00 p.m. Eastern Time. Or, write to the following address:

Federal Deposit Insurance Corporation
Division of Compliance and Consumer Affairs
Deposit Insurance Unit
550 17th Street, NW (1730PA7014)
Washington, D.C. 20429

Information on deposit insurance and other FDIC programs is also available via the Internet at the following addresses:

World Wide Web: <http://www.fdic.gov/>
Anonymous FTP: <ftp.fdic.gov>
Gopher: <gopher.fdic.gov>

Questions on Deposit Insurance can also be sent via E-mail to the following address:
Consumer@fdic.gov

CHAPTER 1

FDIC INSURANCE BASICS

**FDIC's Deposit
Insurance
Program**

The FDIC insures deposits in most banks and savings institutions in the United States. Bank deposits are insured by the FDIC's Bank Insurance Fund (BIF), while savings institutions' deposits are covered by the FDIC's Savings Association Insurance Fund (SAIF). The rules governing insurance of deposits of institutions insured by the BIF and SAIF are the same.

FDIC-insured institutions must display an official sign at each teller window or teller station. There are separate official signs for the SAIF and BIF funds. These official signs are shown on the front cover of this guide.

**Basic Insurance
Limit**

The amount of insurance coverage provided to depositors of each institution insured by BIF and SAIF is the same: \$100,000 to the owner(s) of the funds in the account, including **principal and interest**. Any depositor who places funds with an insured institution is covered, regardless of citizenship or place of residence.

**Coverage Based
on Ownership
Rights and
Capacities**

FDIC deposit insurance coverage is based on the concept of ownership rights and capacities. Funds held in different ownership categories are insured separately from each other.

There are different requirements which must be met before depositors may qualify for insurance coverage under each of the account ownership categories.

Categories of ownership rights and capacities recognized under the FDIC's deposit insurance regulations, and the requirements for qualifying for insurance coverage under each category, are discussed in Chapter 3.

***Types of Deposits
That Are Insured***

All types of deposits held in insured institutions are covered by FDIC insurance including:

- Passbook, Savings, and Christmas Club Accounts,
- Time Deposits, including Certificates of Deposit (CDs),
- Money Market Deposit Accounts, Checking Accounts, and Demand Deposit Accounts.
- Negotiable Order of Withdrawal (NOW) Accounts,
- Retirement accounts consisting of cash on deposit at a bank or savings institution.
- Official Checks, such as Cashiers Checks, Money Orders, Travelers Checks, Officers Checks, and Outstanding Drafts.

Certified checks, letters of credit, and travelers' checks, for which the insured institution is primarily liable, also are insured when issued in exchange for money or its equivalent, or for a charge against a deposit account.

***What Is Not
Insured?***

Many financial institutions also offer their customers a range of investment accounts that do not qualify as deposits and, thus, are not covered by FDIC insurance. Examples of non-deposit investment products that are not covered by FDIC deposit insurance include:

- Investments in mutual funds (including money market mutual funds and mutual funds that invest in stocks, bonds, and other securities).

***What Is Not
Insured? --
Continued***

- U.S. Treasury bills, notes, and bonds purchased through an insured institution.

Note: Although Treasury securities are not covered by federal deposit insurance, payments of interest and principal (including redemption proceeds) on those securities that are deposited into an investor's deposit account at an insured institution are covered by FDIC insurance up to the \$100,000 limit. Also, while U.S. Treasury securities are not insured by the FDIC, they are backed by the full faith and credit of the U.S. Government, which is the strongest guarantee an investor can get.

- Annuities (which are underwritten by insurance companies but sold at some institutions).
- Stocks, bonds or other securities, or other non-deposit investment products, whether purchased through a bank or through an affiliated broker/dealer.
- Contents of a safe deposit box maintained by the institution.
- Funds lost by the insured institution due to robbery, theft, fraud, embezzlement, or natural disaster. (These funds usually are covered by the insured institution's blanket bond insurance policy.)

***Interagency Policy
Statement on
Non-Deposit
Investment
Products***

The four federal financial regulatory agencies -- the Board of Governors of the Federal Reserve, the FDIC, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision -- have issued a policy statement regarding retail sales of non-deposit investment products. This interagency policy statement, dated February 15, 1994, outlines steps that institutions offering non-deposit investment products should take to ensure that customers are informed that such products are not FDIC insured. A copy of the interagency statement is provided in the Appendix.

CHAPTER 2

**GENERAL PRINCIPLES
OF
INSURANCE COVERAGE**

- 1. Insurance Coverage "Per Insured Institution"**
- 2. Deposit Insurance Is Based on Account Ownership Categories**
- 3. Funds Held in the Same Ownership Category in the Same Insured Institution Are Added Together**
- 4. Effect of State and Local Law**
- 5. Evidence of Account Ownership Based on the Insured Institution's Deposit Account Records**
- 6. Accounts Held by an Institution in a Fiduciary Capacity**
- 7. Foreign Deposits**
- 8. Insurance Coverage When an Insured Institution Merges With Another Insured Institution**
- 9. Effect of Changes in Family Relationships on Deposit Insurance Coverage**

1. INSURANCE IS PROVIDED PER INSURED INSTITUTION

Individually chartered institutions are insured separately from each other, even if they are affiliated through common ownership, such as a holding company.

Separate insurance coverage for each separately chartered and incorporated institution means that all deposit accounts --

- owned in the same right and capacity, and
- maintained by a depositor at the same insured depository institution

-- are insured separately from, and without regard to, other accounts that the same depositor maintains at another separately chartered and insured depository institution.

Treatment of Accounts Held in Different Branches of the Same Insured Institution

Accounts of a depositor which are maintained in the same right and capacity at different branches or offices of the same insured institution are **not** separately insured. They are added together and insured up to the insurance limit in accordance with the requirements for ownership under the applicable account ownership category.

2. DEPOSIT INSURANCE IS BASED ON ACCOUNT OWNERSHIP CATEGORIES

The FDIC's rules and regulations for deposit insurance coverage recognize several different categories of "ownership rights and capacities." These ownership categories are:

- Single Ownership Accounts
- Joint Ownership Accounts
- Revocable Trust Accounts
- Irrevocable Trust Accounts
- Accounts of a Corporation, Partnership, or Unincorporated Association
- Retirement and Other Employee Benefit Plan Accounts
- Accounts Held on Behalf of Others Pursuant to a Fiduciary Relationship
- Public Unit Accounts

Each of these ownership categories has specific requirements which must be met in order to receive separate insurance under the category. If an account fails to meet these requirements, the funds may be considered, for deposit insurance purposes, to belong to another category -- usually the single ownership category -- and the funds are added together with any other funds that the depositor has in that same ownership category and insured to \$100,000.

3. FUNDS HELD IN THE SAME RIGHT AND CAPACITY IN THE SAME INSURED INSTITUTION ARE ADDED TOGETHER

All types of deposits in an insured institution which are owned in the same right and capacity (that is, in the same account ownership category), by or for the benefit of a particular depositor or depositors, are added together and insured in accordance with the FDIC's insurance rules applicable to the particular account ownership category.

IMPORTANT! Because the FDIC always looks at the right and capacity in which funds are held, **insurance coverage is not increased by merely dividing funds held in the same ownership capacity among different accounts or types of deposits at the same insured institution.**

Similarly, **insurance coverage is not increased by using different social security or tax identification numbers.**

4. EFFECT OF STATE AND LOCAL LAW

Deposit insurance is for the benefit of the owner or owners of the funds on deposit. Consequently, ownership of deposited funds under state law is a necessary condition for deposit insurance coverage.

Ownership under state law, however, is only one factor in determining the extent of deposit insurance coverage available for a particular deposit account. Other factors include, **but are not limited to:**

- the deposit account records of the insured financial institution,
- FDIC recordkeeping requirements applicable to the ownership category, **and**
- other requirements established in the deposit insurance regulations.

5. EVIDENCE OF OWNERSHIP BASED ON INSURED INSTITUTION'S DEPOSIT ACCOUNT RECORDS

When determining the amount of insurance coverage of an insured account, the FDIC relies on the insured institution's deposit account records to determine whether the owner(s) of the account is entitled to deposit insurance coverage. The FDIC presumes that the funds in an account are actually owned in the manner indicated on the deposit account records.

The FDIC uses the deposit account records of the institution to determine both the identity of the owner(s) and the right and capacity in which the funds are held.

Deposit account records include:

- Signature cards,
- Certificates of deposit or passbooks,
- Account ledgers and computer records that relate to the bank's deposit taking function,
- Corporate resolutions authorizing accounts in the possession of the bank and other books and records of the bank.

For the purpose of determining legal ownership of accounts, deposit account records do not include:

- Account statements,
- Deposit slips,
- Items deposited and canceled checks.

6. ACCOUNTS HELD BY AN INSTITUTION IN A FIDUCIARY CAPACITY

When an institution holds funds as an agent, nominee, guardian, custodian, trustee, conservator, or other fiduciary capacity, and places them in a **deposit account** at the institution, the interest of each principal or beneficiary in such an account will be added to other accounts maintained by or for that person in the same right and capacity at the institution, and the total of that interest will be insured up to \$100,000 in the aggregate.

Exception:

When an institution acts as a trustee under an **irrevocable trust**, established pursuant to a statute or written trust agreement, each beneficiary's interest will continue to be separately insured up to \$100,000.

Deposit insurance does not apply to stocks, bonds or other securities, or property held by an insured institution's trust department in a custodial capacity. An institution holding **non-deposit** assets in safekeeping for its customer is obligated to keep those assets separate from its own assets. The custodial assets thus remain the property of the trust department customer and are considered neither assets nor deposits of the institution.

7. FOREIGN DEPOSITS

Foreign Depositors With Funds in Insured Institutions

Any person or entity that maintains deposits in an insured institution is entitled to deposit insurance coverage. Insurance coverage is provided regardless of whether or not the depositor is a citizen or resident of, or resides in, the United States.

Insured Deposits Denominated in a Foreign Currency

Deposit insurance coverage is provided for deposits in an insured institution that are denominated in a foreign currency. Deposit insurance for such deposits will be determined in the amount of U.S. dollars that is equivalent in value to the amount of the deposit denominated in the foreign currency. If an insured institution fails, the value of the deposit will be determined using the rate of exchange as of the date the institution is closed.

8. INSURANCE COVERAGE WHEN AN INSURED INSTITUTION MERGES INTO ANOTHER INSURED INSTITUTION

When the deposits of one insured financial institution are acquired by another insured financial institution, the newly acquired deposits are separately insured from any other funds a depositor may already have at the acquiring institution **for a set period of time**. This "grace" period is intended to give depositors an opportunity to restructure their accounts in case the transaction results in the depositor having funds in excess of the insurance limit at one insured institution.

SEPARATE INSURANCE COVERAGE IS PROVIDED AS FOLLOWS:

Non-Time Deposits: Separately insured for six months after the date of the merger.

Time Deposits: Separately insured until the earliest maturity date or six months after the merger date, whichever occurs **later**, subject to the following:

- A. Time deposits that mature within the first six months and are renewed --
 - for the same dollar amount (with or without accrued interest added to the principal amount), and
 - for the same term as the original deposit,-- are insured until the first maturity date **after** the expiration of the six-month period.
- B. Time deposits that mature within six months, but are not renewed or retained as demand deposits, are insured until the end of the six-month period.

9. THE EFFECT OF CHANGES IN FAMILY RELATIONSHIPS ON DEPOSIT INSURANCE COVERAGE

Major events that change the nature of family relationships, such as the death of a spouse or a divorce, can affect insurance coverage. When an account holder dies, for example, insurance on some types of accounts can be affected by the resulting change in ownership. Most often, the effect is to reduce the amount of insurance coverage that applies to a family's accounts. For this reason, it is important that depositors be encouraged to review the insurance coverage on their accounts whenever there is a major change in their family situation.

Two examples illustrate this point:

Example A:

Susan Jones has an interest in three accounts at the same insured institution as follows:

Account 1	Susan Jones (individual)	\$100,000
Account 2	Susan and John Jones (joint)	\$100,000
Account 3	John Jones POD to Susan Jones	\$100,000

When the accounts were opened, each was insured in a separate ownership category, resulting in a total of \$300,000 in insurance coverage. Unexpectedly, John Jones, Susan's husband, dies. With his death, the right and capacity in which the funds are owned changes. Accounts 1, 2 and 3 now all contain funds that are owned by Susan in the single ownership category. If the institution fails before Susan restructures her accounts, she will be entitled to only \$100,000 in insurance, leaving \$200,000 (plus earned interest) **uninsured**.

**THE EFFECT OF CHANGES IN FAMILY RELATIONSHIPS ON DEPOSIT
INSURANCE COVERAGE -- Continued**

Example B:

In this example, Susan and John are divorced. Here are the accounts that the family has established in one insured institution:

Account 1	John Jones (individual)	\$100,000
Account 2	Susan and John Jones (joint)	\$100,000
Account 3	John Jones POD to Susan Jones	\$100,000

In this example, the insurance coverage of Accounts 1 and 2 are unaffected by the divorce. However, since Susan is no longer John's spouse, Susan is not a qualified beneficiary for a payable on death account. Consequently, following the divorce, Account 3 will fail as a testamentary account, and the funds in the account will be insured as John's individual funds. If the institution fails before John restructures his accounts, Accounts 1 and 3 will be added together and insured together as John's individual funds. Since the total in the two accounts is \$200,000, \$100,000 (plus earned interest) will be **uninsured**.

CHAPTER 3

ACCOUNT OWNERSHIP CATEGORIES

- 1. Single Ownership Accounts**
- 2. Joint Ownership Accounts**
- 3. Revocable Trust Accounts**
- 4. Irrevocable Trust Accounts**
- 5. Accounts of a Corporation, Partnership,
or Unincorporated Association**
- 6. Retirement and Other Employee
Benefit Plan Accounts**
- 7. Accounts Held on Behalf of Others,
Pursuant to a Fiduciary Relationship**
- 8. Public Unit Accounts**

SINGLE OWNERSHIP ACCOUNTS

DEFINITION

Single ownership accounts are funds owned by a natural person. A natural person is defined as "a human being."

INSURANCE LIMIT

All funds owned by one person and deposited in single ownership accounts in an insured institution are added together and insured up to \$100,000.

TYPES OF SINGLE OWNERSHIP ACCOUNTS

There are several types of accounts that are insured in the single ownership category. These include:

- Individual Accounts,
- Sole Proprietorship Accounts, including accounts titled "Doing Business As" or DBA,
- Accounts Held in the Name of a Decedent, or by Executors or Administrators of a Decedent's Estate,
- Convenience Accounts,
- Single Name Accounts Containing Community Property Funds,
- Accounts Held on Behalf of Others Pursuant to a Fiduciary Relationship,
- Accounts That Fail to Qualify for Insurance in Other Account Ownership Categories.

**Individual
Accounts**

Individual accounts are established and controlled solely by the person who owns the funds in the account.

Example:

If a depositor has a \$72,000 money market deposit account, a \$10,000 checking account, and a \$22,000 certificate of deposit, all titled in the name of Susan Jones, what amount of Susan's deposits is insured?

- Since all three accounts are individual accounts, the funds are added together, giving Susan a total of \$104,000 in single ownership funds.
- The insurance limit of \$100,000 is applied, and Susan is left with \$4,000, plus any earned interest, **uninsured**.

**Sole
Proprietorship
Accounts**

A sole proprietorship is a business wholly owned by one person, in contrast to a business that is incorporated or owned by a partnership. Sole proprietorship accounts are often identified by the informality of the account title. Some examples of sole proprietorship account titles are: "John Doe DBA (Doing Business As) Perfect Portraits," or "Jane Smith, Business Account," . Such titles do not include an indication of incorporation (e.g., ABC, Inc. or XYZ, Ltd.).

Funds owned by a sole proprietorship are insured as the single ownership funds of the person who owns the business, are added to any other single ownership funds of the sole proprietor, and are insured up to \$100,000 in the aggregate. Thus, even though a person who is the sole owner of an unincorporated business opens a separate account in the name of his business, **the business account is not separately insured from his personal accounts at the same institution.**

**Sole
Proprietorship
Accounts--
Continued**

IMPORTANT! In some cases, a sole proprietorship may have more than one signatory on the account. If both signers have the authority to withdraw funds from the account, without clear evidence in the deposit account records that only one person is the owner of the funds, the account could be determined to be insured in the joint ownership category.

**Decedent
Accounts**

Funds deposited by an executor or administrator for the estate of a deceased person are added together with other funds held in the name of the deceased person, and the total is insured up to \$100,000.

Note that decedent and decedent estate account coverage does not apply to testamentary accounts where, upon the death of the owner, the funds belong to a named beneficiary(ies). Similarly, this account category differs from joint accounts (joint tenancy with right of survivorship), where the death of one owner results in full ownership of the funds by the survivor(s). However, in the case of a joint account held as tenants in common, the portion of the account owned by the deceased person could be insured as decedent funds.

For the life of the estate, funds belonging to the estate of the deceased, whether held in the name of the deceased or the executor or administrator of the estate, are insured separately from funds owned by the executor, administrator, or any beneficiary of the estate.

As is the case with any fiduciary account, the fiduciary capacity of the executor or administrator must be disclosed in the institution's deposit account records. An executor or administrator should title the account in a way that clearly discloses the actual capacity in which the funds are held.

**Convenience
Accounts**

If a person owns and deposits funds in an account titled in his or her own name, but then gives another person the right to withdraw funds from the account, the account will be insured as a joint ownership account **unless**:

- C Withdrawals from the account are permitted pursuant to a valid Power of Attorney, or
- C It is clearly indicated in the deposit account records, to the satisfaction of the FDIC, that the funds are owned by one person and the other signer is authorized to withdraw funds only on behalf of the owner.

If the deposit account records clearly indicate that the second signer is not a co-owner, the account will be insured as single ownership funds.

A Power of Attorney does not affect insurance coverage for the owner of the funds or the person holding the Power of Attorney in any way.

**Community
Property Funds**

Some states are "community property" states. This means that most property or funds owned by one spouse are legally considered to be jointly owned by both spouses. Despite this joint -- or community -- ownership, funds deposited in one owner's name are insured as the single ownership funds of that owner, regardless of whether the account contains funds that qualify as community property under state law.

**Fiduciary
Accounts Held for
an Individual**

If funds are deposited on behalf of an individual by an agent, nominee, guardian, custodian, or conservator, and the deposit account records reflect the fiduciary relationship, funds in the account will be insured as the single ownership funds of the principal, added to any other single ownership funds

***Fiduciary
Accounts Held for
an Individual--
Continued***

the principal may have on deposit at the institution, and insured to \$100,000. A later section of this Chapter is devoted exclusively to accounts established on behalf of others pursuant to a fiduciary relationship.

Accounts held by a custodian for a minor under the state Uniform Gifts to Minors Act (UGMA) are insured under the single ownership category. Refer to the section on accounts held pursuant to a fiduciary relationship.

***Accounts That
Fail to Qualify for
Coverage in Other
Ownership
Categories***

Each insurance ownership category specifies certain qualifying requirements that must be met in order to obtain insurance coverage. When these conditions are not met, the funds often revert to the single ownership category for calculation of insurance coverage. The specific qualifying requirements for each category are discussed in their respective sections of this Chapter.

***RECORD-
KEEPING
REQUIREMENTS***

The deposit account records must clearly and accurately reflect the actual ownership of the funds on deposit. This is particularly important when dealing with single ownership accounts that are:

- owned by one person but have more than one person authorized to withdraw funds from the account, or
- established pursuant to formal or informal fiduciary relationships.

JOINT OWNERSHIP FUNDS

DEFINITION

Joint ownership accounts are funds held in the names of two or more natural persons.

INSURANCE LIMIT

All funds in joint ownership accounts are insured up to \$100,000, separately from any single ownership or other types of accounts of the owners **if** each co-owner:

- has equal withdrawal rights to the account, and
- personally signs an account signature card.

Exception: Personal signatures are not required if the account is a certificate of deposit, a negotiable instrument, or is set up by an agent.

If these requirements are not met, the account will fail to qualify for coverage under the joint ownership category, and will be insured as the single ownership funds of the account holders.

Two-Step Process for Calculating Coverage on Multiple Joint Accounts

The calculation of deposit insurance coverage for multiple joint accounts held by different combinations of owners is always a two-step process:

Step 1: All joint accounts held by the **same combination of individuals** are added together and the total insured up to \$100,000.

Two-Step Process
--Continued

Step 2: If other joint accounts are held by the same person with **different combinations of co-owners**, each co-owner's insurable interest in all joint accounts is added together and the total is insured up to \$100,000 for each co-owner.

In short, no joint account (or multiple accounts with **identical** ownership) can exceed \$100,000, and no person can have more than \$100,000 in joint accounts at an institution.

**Rearranging
Order of Names
on an Account
Does Not Increase
Coverage**

The insurance coverage of joint ownership accounts is not increased by rearranging the owners' names, by changing the styling of their names, or by opening more than one joint account for the same combination of individuals at the same institution. Alternating use of "or," "and," or "and/or" to separate the names of co-owners in a joint account title also does not affect the amount of insurance coverage provided.

**Using Multiple
Social Security
Numbers and Tax
ID Numbers Does
Not Increase
Coverage**

Since insurance coverage is not determined by social security number or tax identification number, using different social security numbers or tax ID numbers on multiple accounts held by the same co-owners will not increase insurance coverage.

Any account with more than one authorized signatory will be insured as a joint account, **unless** deposit account records clearly indicate that the funds are owned by only one person and that the other signatory (such as a Power of Attorney) is for convenience or accessibility only.

**RECORD-
KEEPING
REQUIREMENTS**

Funds held by an agent for joint owners (regardless of the relationship) may be insured under the joint ownership account category, **only if** the recordkeeping requirements for fiduciary accounts (discussed later in this Chapter) are met.

**EXAMPLE OF INSURANCE COVERAGE
UNDER THE JOINT ACCOUNT OWNERSHIP CATEGORY**

Consider a group of three joint accounts held in this manner:

<u>Account</u>	<u>Owners</u>	<u>Balance</u>
#1	Chris & Pat	\$100,000
#2	Pat or Chris	25,000
#3	Chris, Pat & Lee	<u>130,000</u>
TOTAL:		\$255,000

STEP 1: All joint accounts held by the same combination of individuals are added together and the total is insured up to \$100,000.

- Accounts 1 and 2 are both owned by Chris and Pat and total \$125,000.
- Only \$100,000 is carried forward to Step 2 of the insurance calculation. The excess, \$25,000 plus any earned interest, is **uninsured** and is not considered in Step 2.
- Account 3 exceeds \$100,000. The excess, \$30,000 plus earned interest, is **uninsured** and is not considered in Step 2.

STEP 2 Using the **insured** balances for each co-owner determined in Step 1, determine the amount owned by each co-owner. This amount is insured up to \$100,000 for each co-owner.

- Chris owns half of accounts 1 and 2 and one-third of account 3. Thus, Chris's ownership interest is:

Accounts 1 and 2 Combined:	\$50,000
Account 3	<u>33,333</u>
Total Insured Under Step 2:	\$83,333
- Pat owns exactly the same amount as Chris: \$83,333
- Lee owns one-third of Account 3: \$33,334

SUMMARY The two-step insurance determination process resulted in this coverage:

<u>Owner</u>	<u>Insured</u>	<u>Uninsured</u>
Chris	\$ 83,333	\$22,500 plus interest
Pat	83,333	22,500 plus interest
Lee	<u>33,334</u>	<u>10,000 plus interest</u>
TOTAL:	\$200,000	\$55,000 plus interest

REVOCABLE TRUST ACCOUNTS

DEFINITION

The term "revocable trust account" refers to any account that evidences an intention that, upon the death of the owner, the funds will pass to a named beneficiary(ies). Revocable trust accounts are also known as:

- Testamentary accounts,
- Totten trusts, and
- "Payable-on-death" accounts.

INSURANCE LIMIT

Revocable trust accounts are insured up to \$100,000 per grantor (owner) **for each qualified beneficiary.**

If two or more grantors are named on a revocable trust account, each grantor is presumed to own an equal share, unless the deposit account records indicate otherwise.

If two or more qualifying beneficiaries are named on a revocable trust account, each beneficiary is presumed to have an equal interest unless the deposit account records indicate otherwise.

Kinship Requirement for Qualified Beneficiaries

A depositor may name anyone as beneficiary to a testamentary account. **However, separate deposit insurance coverage is available only when the specified relationship requirement is met, and the beneficiary is named specifically in the account documentation.**

A qualified beneficiary is a **spouse, child, or grandchild of the owner.** Step-children, step-grandchildren, adopted children, and adopted grandchildren also qualify as beneficiaries of revocable trust accounts.

**Kinship
Requirement for
Qualified
Beneficiaries --
Continued**

Funds in a revocable trust account that names any person who is not the owner's spouse, child or grandchild, are not eligible for separate insurance coverage under the revocable trust category.

Funds in a testamentary account held for the benefit of a parent, sibling or friend, do **not** meet the relationship requirements, and are **not** insured under the revocable trust account category.

Funds held in a testamentary trust account that names a beneficiary other than a spouse, child or grandchild will be treated for insurance purposes as the single ownership funds of the owner(s). These funds will be added to any other single ownership funds held by the depositor at the same insured institution, and the total insured up to \$100,000.

Examples of Insurance Calculation for Revocable Trust Accounts :

- A. Testamentary funds held by a parent for the benefit of three named children are insured up to \$300,000. Testamentary funds held by both parents for three children would be insured up to \$600,000.

These funds could be in one account or in several accounts, so long as each owner-to-beneficiary relationship does not exceed \$100,000 at one institution.

- B. Consider the example of an account titled "Carol ITF her daughter and mother." (Assume that Carol has no other funds at the institution.)

Carol's funds would be insured to \$100,000 as testamentary funds for her daughter's beneficial interest and to an additional \$100,000 in Carol's single ownership category for her mother's interest.

***When Spouses
are Both Grantors
and Beneficiaries***

When account holders establish a testamentary account naming themselves as the sole beneficiaries (e.g., Husband and Wife ITF Husband and Wife), the account is insured as a joint ownership account.

However, when the husband establishes an account in which he holds funds in trust for his wife, and the wife establishes a **separate** account in which she holds funds in trust for her husband, the husband's funds are insured up to \$100,000 and the wife's funds are separately insured up to \$100,000.

***Death of an
Account Holder or
Beneficiary***

IMPORTANT! If an account is held by two co-owners and one of them dies, all of the funds are then owned by the surviving account holder. As of the date of a co-owner's death, the insurance coverage of the account is reduced by \$100,000 **for each qualified beneficiary**.

Also, when both grantors(s) of a revocable trust die, the funds in the account are insured as the single ownership funds of the beneficiary. If there are multiple beneficiaries, the funds are insured as joint ownership funds.

If a beneficiary dies before the owner(s), the amount of deposit insurance available on the account will be reduced by \$100,000 per owner.

***Defeating
Contingencies***

IMPORTANT! Upon the death of the owner of the account, the qualifying beneficiary must have a vested interest in the trust. Most written revocable trust documents (living trusts) contain contingencies or restrictions that disqualify the account from revocable trust insurance coverage. For this reason, legal review of the trust agreement and evaluation of its provisions may be necessary to determine the amount of insurance coverage on accounts that contain funds that are tied to a revocable trust agreement.

Revocable
"Living" Trusts

A living trust, also known as an "inter vivos" trust, requires special review to determine whether it qualifies for insurance coverage under the revocable trust category. Although an account established pursuant to a living trust can sometimes be insured as a testamentary account, all of the qualifying requirements must be met. **Living trusts usually fail to meet the requirement that the funds belong to the named beneficiary upon the death of the grantor, and thus fail to qualify for coverage under the revocable trust account category.**

Evaluation of whether a living trust meets the requirements for insurance as a testamentary account is a complex matter that generally will require the assistance of legal counsel. Depositors with questions about insurance coverage of their living trusts should be encouraged to consult their attorney for advice. The FDIC has a set of interpretive guidelines that attorneys can request to assist in evaluating a trust.

When a revocable living trust fails to meet the special requirements for separate insurance coverage of testamentary accounts, the trust funds are insured as the single ownership funds of the grantor(s). Consequently, funds deposited under the provisions of a revocable living trust will be added to any other single ownership funds of the grantor and the total will be insured up to \$100,000.

If a revocable living trust has been created by more than one grantor, funds deposited pursuant to the trust will also be treated as the single ownership funds of each such grantor. Thus, the trust funds will be divided between the grantors, added to any other single ownership funds of each such grantor, and the sum will be insured up to \$100,000 per owner.

**RECORD-
KEEPING
REQUIREMENTS**

The deposit account records of the insured institution or the trust document must disclose the name of each beneficiary of the account.

In addition, a trust account not only must comply with the recordkeeping requirements for accounts held on behalf of others pursuant to a fiduciary relationship (covered later), but the trust account title must include terms such as "in trust for," "as trustee for," or "payable-on-death to." An acronym for these terms, such as "ITF," "ATF," or "POD," may be used in lieu of these statements.

ACCOUNTS OF A CORPORATION, PARTNERSHIP OR UNINCORPORATED ASSOCIATION

DEFINITION

Accounts that contain the funds of a corporation, partnership or unincorporated association.

A "corporation" is an organization that is incorporated under the laws of the state in which it is located.

A "partnership" is an association of two or more persons or entities formed to carry on, as co-owners, an unincorporated business engaged for profit.

An "unincorporated association," is an association of two or more persons formed for some religious, educational, charitable, social, or non-commercial purpose.

IMPORTANT! Accounts of a sole proprietorship are **not** covered under this account category. Sole proprietorship accounts are insured as the single ownership funds of the sole proprietor.

INSURANCE LIMIT

Funds owned by a corporation, partnership, or unincorporated association are insured under this category up to \$100,000, provided that the entity is engaged in an "**independent activity**." The term "independent activity" means that the entity that owns the insured funds is operated **primarily** for a business purpose other than to increase deposit insurance coverage.

Funds in accounts of corporations, partnerships, and unincorporated associations that are not engaged in an independent activity will be considered to be owned by the person or persons who own the corporation or who comprise the partnership or unincorporated association.

INSURANCE
LIMIT--Continued

Funds held in a Corporation, Partnership or Unincorporated Association Account are insured separately from the personal funds of the owner(s) or officials of the entity.

Example: The president of a corporation could hold a joint ownership account with her husband at the same institution where the corporation's funds are deposited. The joint account and the corporate account are separately insured to \$100,000 each.

**Separately
Insured Entities
Must Be
Separately
Incorporated**

Corporations must be **separately incorporated** to receive separate insurance coverage. If a corporation has divisions that are not separately incorporated, funds deposited by those divisions are **not** separately insured even if the deposit accounts are designated for different purposes.

Corporate stockholders, officers, employees, and employee benefit plan participants can hold their personal deposits at the same depository institution where the corporate funds are deposited. Their personal funds will be insured according to the "right and capacity" in which they are held, separately from those of the corporation.

**Partnership
Accounts**

Insurance coverage of the funds owned by a partnership is separate from insurance provided for the personal funds of the partners.

**Unincorporated
Association
Accounts**

Funds held by an unincorporated association are insured separately from the personal funds of the association's officers and members.

**RECORD-
KEEPING
REQUIREMENTS**

As with any type of account, care should be taken to ensure that the deposit account records accurately reflect the actual ownership of the funds. If an account is established by an agent, nominee, or another acting on behalf of a corporation, partnership, or unincorporated association, the recordkeeping requirements for fiduciary accounts must also be met.

IRREVOCABLE TRUST ACCOUNTS

DEFINITION

Irrevocable Trust Accounts are established by statute or a written trust agreement in which the settlor (the creator of the trust) contributes funds and/or property and relinquishes all power to revoke the trust.

INSURANCE LIMIT

In order to be separately insured under the Irrevocable Trust Account category:

- The trust agreement must be valid under state law,
- The existence of the trust relationship must be disclosed on the deposit account records of the institution, and
- The beneficiary's interest in the trust account must be "**ascertainable**" and "**non-contingent.**"

A **non-contingent trust interest** means that the identity of the beneficiary(ies) and his (their) ownership interest(s) in the account can be determined without evaluation of contingencies other than life expectancy. When a beneficiary's interest in an irrevocable trust can be determined without evaluation of a contingency other than life expectancy, the beneficiary is considered to have an **ascertainable interest** in the trust.

The "non-contingent" ownership interest of each beneficiary in an irrevocable trust account is insured up to \$100,000, separately from any other accounts held by the settlor, trustee, or any beneficiary at the same depository institution.

**RECORD-
KEEPING
REQUIREMENTS**

Irrevocable Trust Account coverage will only apply if the following recordkeeping requirements are met:

- the deposit account records must disclose the existence of the trust relationship, preferably in the account title,
- the identities of the beneficiaries must be ascertainable either from the records of the institution or the records of the account holder (trustee), maintained in good faith and in the regular course of business, and
- the interests of the beneficiaries must be ascertainable and non-contingent.

Note: Irrevocable trust coverage is available on contingent trusts, but only to \$100,000 per trust. Similarly, unascertainable and/or contingent interests within a trust are aggregated and insured to a total of \$100,000 per trust.

RETIREMENT AND OTHER EMPLOYEE BENEFIT PLAN ACCOUNTS

DEFINITIONS

Retirement and other Employee Benefit Plan Accounts consist of funds from pension, profit sharing, deferred compensation or other employee benefit plans. Employee Benefit Plans are any plans that qualify under section 3(3) of the Employee Retirement Income Security Act of 1974.

TYPES OF RETIREMENT AND EMPLOYEE BENEFIT PLANS

Types of Retirement and Employee Benefit Plans covered by this category are:

- **Defined Contribution Plans**, in which each participant has one or more accounts made up of contributions from the participant and/or the employer.
- **Defined Benefit Plans**, under which the employer is obligated to pay a retired employee a certain benefit amount which is often based on the employee's years of service and salary at the time of retirement.
- **Employee Welfare Plans or Welfare Benefit Plans**, which are established by an employer or union in order to provide employees with medical, health, hospitalization benefits, or income, in the event of sickness, accident, or death. Welfare plans generally are funded through a trust.
- **"Section 457" Plans**, which are a type of deferred compensation plan account for employees of state and local governments and non-profit organizations.
- **Individual Retirement Accounts (IRA)**, which qualify under section 408 of the Internal Revenue Code of 1954. Contributions to the account are made by the individual (or his or her spouse) based upon earned income.

TYPES OF PLANS

--Continued

- **Keogh Accounts**, which qualify under 401(d) of the Internal Revenue Code of 1954. The words "Keogh" or "HR10" usually will appear in the title of the employee benefit plan. This type of plan allows the employer to make contributions to an individual's retirement account.

Note:

IRAs ordinarily are not considered Employee Benefit Plans, but could be if established by an Employer for an Employee.

INSURANCE LIMIT

Deposits of retirement and employee benefit plans generally are insured up to \$100,000 per each participant's interest in the plan if:

- each participant has an **ascertainable** and **non-contingent** interest in the plan,
- the insured institution meets certain **capital requirements**, and
- the FDIC **recordkeeping requirements** for fiduciary accounts are satisfied.

The short-hand expression for this type of coverage is "pass through" insurance, meaning that the insurance "passes through" the plan to each participant who has an interest in the plan.

**Ascertainable and
Non-Contingent
Trust Interests**

A **non-contingent trust interest** means that the identity of each beneficiary and her ownership interest(s) in the account can be determined without evaluation of contingencies other than life expectancy. When an employee's interest in an employee benefit plan account can be determined without evaluation of a contingency other than life expectancy, the employee is considered to have an **ascertainable interest** in the trust.

**Ascertainable and
Non-Contingent
Trust Interests --
Continued**

Employees interests that are **not ascertainable** (or capable of determination) are insured up to a maximum of \$100,000 in the aggregate.

This factor often applies to funds deposited by many health and welfare plans.

**Capital
Requirements for
Insurance
Coverage of
Retirement and
Employee Benefit
Plan Accounts**

The amount of insurance coverage available for retirement and other employee benefit plan accounts is based upon the capital level of the insured bank or thrift where the deposits are made. In order for "pass through" coverage to be provided, the insured institution must be able to accept "brokered deposits" under section 29 of the Federal Deposit Insurance Act.

In order to accept brokered deposits, the institution must meet certain capital requirements at the time the employee benefit plan deposits are accepted.

An institution may accept brokered deposits **ONLY** if the institution's prompt corrective action ("PCA") category is:

- "well-capitalized," or
- "adequately capitalized" and the institution has obtained a waiver from the FDIC to accept brokered deposits.

Exception:

There is one other way in which insurance can be provided for up to \$100,000 per plan participant instead of per plan. If an institution is adequately capitalized, but does not have a waiver to accept brokered deposits, and the depositor obtains a written notice from the institution **at the time that a deposit is made** into an employee benefit plan, then pass-through insurance coverage will be provided **for that deposit**. In that situation, an employee benefit plan would be entitled to per-participant coverage.

**Source of the
Plan's Funds**

For insurance purposes, it does not matter whether the funds are derived from:

- employee contributions made on a before-tax or after-tax basis, or
- employer contributions or rollover contributions.

All interests of participants are considered to be fully vested for insurance purposes. However, only the present vested interest of employees in IRAs, self-directed Keogh Plans, 457 Plans, and self-directed defined contribution plans will be taken into account for deposit insurance calculations.

**Aggregation of
Interests Held by
the Same
Beneficiary in
Multiple Plans
Established by the
Same
Organization**

Assuming that an employee benefit plan account is entitled to "pass-through" coverage, any interests of the same participant in any other employee benefit plan established by the same employer or employee organization (e.g., a union) and deposited in the same institution are combined and insured up to a total of \$100,000.

For example, if a company deposits funds of both pension and profit-sharing plans at the same depository institution, the ownership interests of a participant in both plans would be added together and insured up to \$100,000.

**Aggregation of
IRA, Keogh
Accounts, and
Other Self-
Directed Plans**

IMPORTANT! A depositor's interests in IRAs and self-directed Keoghs are not separately insured. A depositor's IRA and self-directed Keogh deposits in the same insured institution are aggregated when determining deposit insurance coverage. In addition, the same depositor's interests in "section 457 plan accounts" and self-directed defined contribution plan accounts (like 401(k) plans) are added to the depositor's aggregated IRA and self-directed Keogh account funds held at the same insured institution.

**Aggregation of
IRA, Keogh
Accounts, and
Other Self-
Directed Plans --
Continued**

The total of all these retirement funds is insured to a limit of \$100,000 per insured institution.

Note:

This aggregation rule applies only to funds deposited in IRAs, self-directed Keoghs, 457 plans and self-directed defined contribution plans that were made, renewed or rolled-over on or **after December 19, 1993**. There is a "grandfather provision" for deposits that pre-date the December 19, 1993, effective date of this rule.

**RECORD-
KEEPING
REQUIREMENTS**

Each of the following recordkeeping requirements must be met in order to qualify for insurance coverage under this account category:

- The deposit account records of the depository institution must expressly disclose that the funds are those of an employee benefit plan.
- The account holder must maintain records that disclose the identities and interests of plan participants.

**CAPITAL
DISCLOSURE
REQUIREMENTS**

Insured institutions must make certain disclosures of capital information to existing and prospective employee benefit plan depositors. **The disclosures do not alter the existing deposit insurance coverage.** Rather, the disclosures are designed to reduce depositor uncertainty about whether employee benefit plan deposits are eligible for per-participant insurance coverage and to alert employee benefit plan depositors when "pass-through" coverage is no longer available.

**CAPITAL
DISCLOSURE
REQUIREMENTS--
Continued**

The following disclosure requirements became effective on July 1, 1995:

1. The depositor of an existing employee benefit plan account may request a written statement from an insured institution indicating:
 - the institution's prompt corrective action ("PCA") category and capital ratios, and
 - a statement of whether, in the institution's judgment, employee benefit plan account deposits would qualify for pass-through insurance.
2. Whenever an employee benefit plan account that might be eligible for "pass-through" insurance is opened, the insured institution must give the depositor:
 - written disclosure of the institution's PCA category,
 - the requirements for "pass-through" insurance, and
 - a statement of whether, in the institution's judgment, the deposits would qualify for pass-through insurance.
3. Within 10 business days of when new, renewed, or rolled over employee benefit plan deposits placed with an institution will no longer be eligible for "pass-through" insurance, the institution must send a written notice to all affected depositors:
 - indicating the institution's new PCA category, and
 - stating that any new, renewed or rolled over employee benefit plan deposits will not qualify for "pass-through insurance."

ACCOUNTS HELD ON BEHALF OF OTHERS PURSUANT TO A FIDUCIARY RELATIONSHIP

DEFINITIONS

This category applies to accounts established by a third party for the benefit of another party(ies). Fiduciary relationships include, but are not limited to, arrangements involving:

- a trustee
- an agent
- a nominee
- a guardian
- an executor
- a custodian.

INSURANCE LIMIT

These accounts are insured to the same extent as if the funds were deposited directly by, and in the name of, the actual owner(s) of the deposits. Funds deposited by an agent, trustee, guardian, custodian, or conservator, on behalf of another person(s), are insured as the funds of the owner(s), provided the recordkeeping requirements described below are met.

RECORD- KEEPING REQUIREMENTS-- BY TYPE OF ACCOUNT

Trust Accounts

Trust Accounts are discussed in the sections dealing with Revocable and Irrevocable Trust Accounts.

Agency Accounts

An account held in the name of an agent on behalf of a principal is insured as the funds of the principal. The funds are added together with any other funds that the principal owns in the same right and capacity at the insured institution, either directly or through an agent, and insured to the same extent as if the funds had been placed directly by the principal(s).

**Agency Accounts-
-Continued**

The principal(s) may be one person, several persons who own the funds jointly, a corporation, a partnership, or an unincorporated association.

Brokered deposits are generally insured as agency accounts.

Example: Tom Smith has an single ownership account for \$100,000 at ABC Savings Bank. His broker has placed \$50,000 of his funds at the same institution. His single ownership funds and the funds placed at the institution by his broker on his behalf are added together and insured to \$100,000, leaving Tom with \$50,000 plus earned interest **uninsured**.

**Guardian,
Custodian or
Conservator
Accounts**

Funds held by a guardian, custodian, or conservator for the benefit of his or her ward are treated as the single ownership funds of the ward, provided that the necessary recordkeeping requirements are met.

This category includes funds invested on behalf of a minor under the **Uniform Gifts to Minors Act**. The Uniform Gifts to Minors Act is a state law that allows an adult to make an irrevocable gift to a minor. Funds given to a minor by this method are held in the name of a custodian for the benefit of the minor. Funds deposited for the benefit of a minor under the Uniform Gift to Minors Act (**or the Uniform Transfers to Minors Act**) are considered the single ownership funds of the minor and, thus, are insured under the single ownership category up to \$100,000.

Example: An account held as "Jane Jones, guardian for Susan Brown, minor," is added together with any other accounts owned by Susan at the same institution, and the total is insured up to \$100,000.

***Accounts Held by
A Fiduciary on
Behalf of Two or
More Persons***

Accounts containing funds held by a fiduciary on behalf of two or more persons who own the funds jointly are insured as a joint ownership account.

IMPORTANT! The requirement that the co-owners of the account must personally sign the signature card does not apply to joint accounts established by a fiduciary.

***Mortgage
Servicing
Accounts***

Mortgage servicing accounts are custodial accounts that contain escrow funds paid by the borrower (mortgagor) to a lender (mortgagee). There are two common types of mortgage servicing accounts:

"P&I" Accounts, which contain that portion of the borrower's loan payment that is applied to pay off the principal and interest balance on the mortgage loan;

"T&I" Accounts, which contain that portion of the borrower's loan payment that is applied towards the payment of taxes and insurance on the mortgaged property.

A "T&I" account related to a property for which there is only one borrower is insured as the borrower's single ownership funds. "T&I" accounts related to a property that has two or more co-borrowers is insured under the joint account category.

Mortgage servicing accounts holding "P&I" payments are insured as the funds of the lender, usually in the corporate account category. Usually a lender's monthly P&I payments, from many borrowers, are deposited at one institution. Even though the payments are made by many borrowers, the P&I funds belong to the lender when they are paid, and thus are insured to only \$100,000 in the aggregate.

**RECORD-
KEEPING
REQUIREMENTS**

An account may be insured to a person other than the named account holder only if the deposit account records of the insured institution expressly disclose, by way of specific references, that the account is held by someone other than the actual owner of the funds pursuant to a fiduciary relationship.

IMPORTANT! No claim for insurance based on a fiduciary relationship will be recognized in the absence of disclosure of the relationship in the deposit account records of the insured institution. Even if the funds in the account are held by a fiduciary for another's benefit, if the relationship is not disclosed in the institution's deposit account records, the account will be added together with any other accounts owned by the fiduciary in its corporate or single ownership capacity, and insured up to \$100,000.

If the account is held on behalf of a trust, and there is no disclosure of the trust relationship, the account is insured as the single ownership funds of the trustee(s), with each trustee treated as the owner of an equal share of the account. This amount is added to any other single ownership funds held by the trustee, and the total insured to \$100,000.

This disclosure requirement serves two purposes: when an institution fails, it puts the FDIC on notice of large potential insurance claims; it also minimizes the risk that a depositor may make a claim for additional insurance coverage based on relationships fabricated after an institution fails.

**Details of
Fiduciary
Relationships**

If the deposit account records of the insured institution disclose the existence of a relationship that might provide a basis for additional insurance coverage, the details of the relationship and the interests of other parties in the account must be ascertainable from either:

**Details of
Fiduciary
Relationships--
continued**

- the deposit account records of the insured institution, or
- records maintained, in good faith and in the regular course of business, by the depositor or by some person or entity that had undertaken to maintain such records for the depositor.

**Disclosure of
Multi-Tier
Fiduciary
Relationships**

Fiduciary accounts may involve multiple levels of relationships. For example, an agent may hold funds directly for one or more principals. Alternatively, one agent, "A," may hold funds as nominee for "B," who in turn holds the funds as agent for "C," who is an agent for "D." In deposit accounts involving multiple levels of fiduciary relationships, there are two alternative methods of satisfying the FDIC's recordkeeping requirements in order to obtain insurance coverage for the interests of the true beneficial owners of the funds:

Option 1:

- a) Indicate on the deposit account records the existence of each and every level of the fiduciary relationship, **and**
- b) Disclose, at each level, the name(s) and interests of the person(s) on whose behalf the party at each level is acting.

Option 2:

- a) Expressly indicate on the deposit account records that the depositor is acting in a fiduciary capacity on behalf of certain persons or entities who may, in turn, be acting in a fiduciary capacity for others,
- b) Disclose the existence of additional levels of fiduciary relationships in records maintained, in good faith and in the normal course of business, by parties at subsequent levels, **and**
- c) Disclose at each of the levels the names and interests of the persons on whose behalf the party at that level is acting.

***Disclosure of
Multi-Tier
Fiduciary
Relationships--
continued***

No person or entity in the chain of parties will be permitted to claim that they are acting in a fiduciary capacity for others unless the possible existence of such a relationship is revealed at some previous level in the chain.

***When Records
Fail to Disclose
the Fiduciary
Relationship***

If the records of the failed institution do not disclose that an account is held pursuant to a fiduciary relationship, the account will be insured to the named party as single ownership or corporate funds.

If the account is held on behalf of a trust and there is no disclosure of a fiduciary relationship, the account is insured as the single ownership funds of the trustee(s), with each trustee treated as the owner of an equal pro rata share of the account.

***Evidence of
Ownership Not
Needed For
Negotiable
Deposit
Instruments***

Ownership of a deposit does not have to appear on the deposit account records when the original item presented is a negotiable deposit instrument. The FDIC will insure the deposit to the person to whom the instrument was negotiated, even though the insured institution's deposit account records do not disclose the name of the owner of the funds.

The owner must provide affirmative proof that the instrument was negotiated to substantiate the claim for deposit insurance. Negotiable deposit instruments that qualify for this exception **may** include, but are not limited to:

- certificates of deposit
- negotiable drafts
- negotiable cashier's or officer's checks
- negotiable certified checks
- negotiable traveler's checks
- letters of credit.

PUBLIC UNIT FUNDS

DEFINITION

Public Unit Accounts contain funds owned by cities, counties, states, or other government entities of the United States and deposited by an official custodian.

INSURANCE LIMIT

Insurance coverage of a Public Unit Account differs from that of a corporate account in that the coverage extends to the **official custodian** of the funds belonging to the public unit, rather than the public unit itself. Each official custodian of **time and savings accounts** (including interest-bearing NOW accounts) of a public unit is insured up to \$100,000.

In addition, **demand deposits** maintained in an insured institution in the same state as the public unit are separately insured up to \$100,000. Consequently, the same official custodian may receive up to \$200,000 in insurance coverage -- \$100,000 in time and savings deposits and \$100,000 in demand deposits -- provided the funds are held in an insured institution located in the same state as the public unit.

Public unit funds maintained in any out-of-state institution -- whether time, savings or demand deposits -- are limited to a maximum of \$100,000 per official custodian.

Official Custodian

One person may serve as official custodian of the funds of many public units. Also, a public unit may be served by two or more official custodians all of whom would have separate insurance coverage for the funds in their control. The official custodian must have plenary authority, including control, over the funds owned by the public unit. Similarly, if the exercise of authority or control over the funds of a public unit requires action by or the consent of two or more "custodians," they will be treated as one official custodian for the purpose of deposit insurance.

***Separate
Insurance for
Political
Subdivisions***

If a public unit has political subdivisions, the funds of each subdivision will be separately insured if each subdivision:

- was created under express authorization of law,
- has some functions of government delegated to it by law, and
- can exercise exclusive control over funds for its exclusive use.

The deposit account records must indicate that the account contains funds of a public unit.

***RECORD-
KEEPING
REQUIREMENTS***

The deposit account records must indicate that the account contains funds of a public unit.